

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS HARARE 001222

SIPDIS

STATE FOR AF/S
USDOC FOR AMANDA HILLIGAS
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: ECON EAID EAGR EINV PGOV ZI
SUBJECT: Parallel Market Takes Off

Ref: Harare 1206

¶1. Summary: The GOZ's overvalued currency still plagues exporters. Despite GOZ enforcement against parallel trading, the gulf between auction and market rates is growing. Notwithstanding the GOZ propaganda onslaught that the country is experiencing a socio-economic turnaround and faces bright prospects, most recently expressed by President Mugabe in his opening address of the fifth session of Parliament, the economy continues on its downward path. Ordinary Zimbabweans bear the brunt of GOZ mismanagement. End summary.

The overvalued zimdollar

¶2. The zimdollar now fetches up to Z\$7,000:US\$ in parallel trading, an approximate 40 percent premium to the Reserve Bank (RBZ)-determined Z\$5,300:US\$ auction rate. Absent GOZ harassment of parallel traders, the zimdollar would probably have devalued further. Purchasing power parity models, using December as a baseline, put the rate at about Z\$8,000-10,000:US\$.

¶3. Demand for U.S. dollars at the official discounted rate has understandably exploded. Bids at each auction now reach nearly US\$40 million, with only US\$9.5 million on offer. (It has lately taken the RBZ two months to transfer forex into the accounts of auction-winners, further evidence of its overstretch.) Ironically, the few importers that the RBZ deems eligible at auctions also qualify for the RBZ's productive sector loans. These loans carry interest rates of only 50 percent, heavily negative in real terms, with market lending rates ranging 270-300 percent. Cheap forex and borrowing create enormous rent-seeking opportunities.

Comment

¶4. Exporters are hurting. Beyond an overvalued exchange rate, they still generally surrender 25 percent of revenue through an indirect tax (by exchanging that portion at Z\$824:\$US). Most no longer believe they can compete regionally.

¶5. Official statistics are of little value, but our best evidence suggests exports are rapidly declining. Zimbabwe exports to the U.S., for example - an admittedly narrow window - were off 16 percent Jan-May 2004 compared to the same period in 2003. That's on top of a 33 percent drop from 2003 to 2002. (Note: Post is trying to develop a better and broader gauge of export revenue, arguably Zimbabwe's single most telling economic indicator.) Some exporters have told us this week they are shifting production to domestic sales, an absurd twist. Meanwhile and despite RBZ rhetoric to the contrary, the economy continues to tank.

Sullivan